The Management REVIEW

AMERICAN • MANAGEMENT • ASSOCIATION

AMA

AUGUST, 1938

COMMENT • DIGEST • REVIEW

THE AMERICAN MANAGEMENT ASSOCIATION

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Editor — JAMES O. RICE, 330 West 42nd Street, New York, New York

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The Management REVIEW

STEPHEN LEACOCK, who devotes much of his energy to pulling the stuffing out of stuffed shirts and to putting life into stuffy subjects, has written an essay on the world situation which we are glad to abstract on page 257 (All Is Not Lost! The Sun Still Shines!) Mr. Leacock protests that Hitler's hay fever should not cause us sleepless nights, and that the latest ultimatum from the Lats to the Slats should not be the incubus of summer night dreams. Our trouble, declares Mr. Leacock, is that we are suffering from a collective gloom that feeds on the falling franc, the rising Yangtze, sit-downers, hold-outers, the Loyalist advance, the Chinese retreat, and the Sudeten Germans.

In this indulgent vacation month of August we do not even mind mixing our metaphors to say that Mr. Leacock's message comes like a refreshing spring zephyr into an over-serious world. If we must be serious, let's worry about our golf, our fishing, or the Japanese beetles in our petunias.

AT the latest meeting of the National Office Management Association, Dr. C. C. Birchard delivered a paper on the effect of food on the worker, which is reported in an abstract on page 270 (Diet and Physical Efficiency). Dr. Birchard makes the five-meals-a-day idea look more practical and reasonable than ever in pointing out that an individual can work with efficiency for only three hours after each meal. After that the worker suffers from lassitude and muscular tiredness. Five light meals give seven hours of muscular efficiency out of the eight hours a man works.

SPECULATION has been rife in recent months as to how the unions were weathering the recession. *Forbes* reports on page 266 (What Depression Has Done to Unionism) that some of the unions have been having a rough time of it, with dues intake reduced to a trickle and workers now on part-time gone sour on the organizations that could not protect their jobs. *Forbes* estimates that one million men who once carried union cards have ceased paying dues.

Current Comment

WHERE IS THE LABOR ACT LEADING US?

During the summer and fall of 1938 an intensive search for a proper definition of collective bargaining "rights" is forecast for certain interested groups, not the least of which comprises the business management community. Quite naturally, this involves a study of National Labor Relations Board procedure and the Board's definition of proper procedures.

Roughly, all "NLRB rules" can be divided into two classifications: (1) those which have such majority acceptance, backed by Supreme Court approval, as to set them indelibly in the fabric of our modern labor relations law; and (2) those which are rather vaguely defined in certain NLRB decisions but which have not gained either public acceptance or Supreme Court validation. It is our duty and privilege to examine, prior to the inevitable Congressional uproar of next year, these hazy rules which may, or may not, become a permanent part of the Federal labor law.

It is possible today to find a fair amount of agreement, among business men, politicians, labor leaders, and neutral citizens of many classes, on one point: The National Labor Relations Act is not all that it might be. Opinions differ on proper steps to correct the Act's shortcomings, but without quarreling over details it is possible to set down the following points with assurance:

(1) The Act's purposes, poorly stated in its preamble, are widely misunderstood. An arm of government with the sole power of protecting and effectuating labor's right to organize and bargain collectively, the Board is erroneously regarded as an impartial investigatory agency, a court, an arbitration and mediation device.

(2) There is wide demand for definition of what labor *cannot* do, as well as what it *can* do; there is a corresponding

demand for an accurate statement in the law of what the employer *can* do in addition to what he *cannot* do. In other words, the average neutral observer feels that the list of "thou shalt nots" is directed wholly at one class—the employers—and that in all justice the restrictions on labor should be clearly set forth.

(3) The Board itself, operating under very loose restrictions, is constructing a record which, if not scrutinized very closely and evaluated correctly, may set precedents difficult to overcome. Some of these precedents conflict sharply with the average conception of civil rights. Others lessen the neutral citizen's confidence in judicial integrity, even if he *is* wrong in assuming that the National Labor Relations Board is an impartial court and a middle-road arbitration agency.

Interested parties, who hope to be adequately informed about such matters, are inclined in the usual day-to-day course of affairs to join one side or the other. Thus we find that some citizens line up as being violently opposed to the labor act and call for its complete destruction; numerous others vehemently reject any thought or suggestion of change. Yet a showdown in Congress undoubtedly is on the way. At this time, even before the big guns begin to roar, it is possible to evaluate the relative effectiveness of anti-NLRB arguments:

(1) Better definition of the rights of all parties, including employers and civic agencies, to free speech and free expression of opinion on controversial subjects is badly needed. It is difficult to say, on the basis of National Labor Relations Board decisions, where honest opinion ends and coercion begins. Some industrial relations managers, called in to advise subordinates about their best course of action in a labor dispute, are beginning to think that—if they feel the union is bluffing—they had better keep still.

(2) There is danger that the custom of employing workers freely on the basis of merit and availability is being destroyed by some of the National Labor Relations Board decisions. The same danger is observed in the demands of some unions, which establish each worker in his present position; industry, recovering from depression, is forbidden to employ any but former workers unless entirely new jobs are created by expansion—and new people, even though they may be better workers, cannot be taken on until such time as all laid-off employees have been rehired.

(3) The conduct of National Labor Relations Board hearings is open to criticism by those who expect that recognized rules of court procedure will be followed. Hearsay evidence is sometimes acceptable from one side—but not from the other. Perjury is no threat to witnesses, as it is in ordinary judicial procedure, and a great deal of testimony is taken which, to the impartial observer, seems very fanciful and not substantiated in fact.

(4) The halting pace of many important National Labor Relations Board cases is itself a menace to good industrial relations. It is evident that the unions, and often the employers and their attorneys, are sometimes guilty of "stalling" to produce a never-ending hearing. This slothfulness is difficult to treat, because a "full and fair hearing" must be given all parties. Yet the blocking of progress in some of our most important cases merits the outright and vigorous protest of all fair-minded citizens.

Industry and the public are slowly beginning to understand the better-defined new rules of industrial relations, and few can be found today who will quarrel with the assertion that labor has a right to bargain collectively. During the past three years, however, there has arisen a growing conviction in the minds of many citizens that proper safeguards are needed to prevent excesses under the law. It is the opinion of many competent observers that the next Congress must produce badly-needed legislation to preserve equality of bargaining rights.

Only a minority of voters, probably, would agree to outright repeal of the Wagner Act. A good-sized majority of all citizens, on the other hand, would support a program for honest and equitable solution of the aforementioned problems through reasonable amendment or supplementary legislation. It is in that direction that the hopes for good industrial relations can be realized.

RALPH A. LIND,
Labor Relations Consultant,
Stevenson, Jordan & Harrison;
Former Regional Director of the National Labor Relations Board, Cleveland.

THE MANAGEMENT INDEX*

Abstracts and News Items

GENERAL MANAGEMENT

All Is Not Lost! The Sun Still Shines!

I was just starting out trout fishing one day last week when I saw a headline in an afternoon paper that war in Europe was just about a certainty—anything within 24 to 26 hours. The Lats had sent what was practically an ultimatum—the nearest they could write to one—to the Slats, and there was no likelihood that a high-minded people like the Slats would swallow it. As I say, I think it was the Lats and the Slats, but it may have been the Checks and the Shorts—at any rate, some of those high-chested people that fill the center of Europe, who used to be content before the Great War to play the hand-organ and make toy clocks but who now hold the center of the stage.

Of course, on top of news like that, I couldn't fish. A lump rose in my throat at the thought that unless the Slats—a high-minded people—would back down, it meant war, and everybody knows that war means "world chaos" and that "world chaos" means the end of trout fishing. What chance would a trout have in that? (It was too late to go fishing when I got the news in the evening paper that the Lat-Slat crisis was over.)

All of which serves to point out that the world is currently suffering from a kind of collective gloom, a mass apprehensiveness. Every day we shudder at the fleeting shadow of a new "crisis." We read of agony in Spain, crash of the franc, Mussolini, Hitler, bombs, cruelty and the fall of freedom. Here in America, wheat falls 10 cents, spelling national ruin; we listen in trepidation to an anvil chorus of sit-down strikers and stand-up agitators, money sterilized, credit paralyzed, confidence pulverized, and 10,000,000 unemployed sitting in a row eating sandwiches, with no proper psychological conception of the value of their leisure. Daily from Washington come explosions as sudden and arresting as the sound of a lamb chop blown up in a lunchwagon.

Nonsense—these are illusions! The actuality has all the beauty of summertime, with leaves on the trees, trout in the streams, and shimmering lakes

*For publishers' addresses or information regarding articles or books, apply to AMA headquarters.

dotted with canoes; with every golf course an artistic dream, a vast lawn of green, gay with bright costumes; with every street packed with the glistening cars of people crowding into the magic world of movies. And in Europe, here are the real things—the French news, for instance: bathing ensembles at Deauville simply scandalous ... standing room only at Folies Bergere... Daladier opens pup show... champagne vintage best in 20 years.

All about us a beckoning world—ample as never before in its abundance; a little out of gear, just for a spell, but only because, collectively speaking, we are like the sudden heirs of a rich estate quarreling over their inheritance. With the good will toward men that we all feel and none dares act upon, let us cast from the gateway the evil spirits of fear, apprehension and distrust which keep us from our kingdom. By Stephen Leacock. *The New York Times Magazine*, August 7, 1938, p. 1:3.

The Outlook for Business

Undoubtedly the dominant question in the minds of business men as they enter the second half of 1938 is the significance of the moderate business revival and the more pronounced upturn in security prices since the beginning of June. At one extreme is the view that recovery is definitely under way and may be expected to continue; at the other is the belief that nothing has yet occurred to restore confidence on the part of business men and investors, without which any revival in the capital goods industries, and hence any genuine business recovery, is impossible. Perhaps the balance of probabilities is the golden mean between these two extremes.

The more favorable interpretation rests mainly upon the cyclical theory of business fluctuations—the belief that a period of depression generates powerful forces tending to produce recovery. Applying this view to the present situation, one notes that the country has passed through the most severe and prolonged economic depression in its history and that the progress of recovery was by no means complete when it was interrupted by the recession of the last 12 months. According to this line of reasoning, such a long period of subnormal activity must have depleted inventories, created shortages, reduced capitalizations, shaken out weak financial structures and inefficient plants, lowered indebtedness, and otherwise paved the way for a substantial advance.

Unfortunately, the list of adverse influences is perhaps equally imposing. The actual rise in the general level of business activity thus far has been slight. Real recovery will require an active and continuous process of capital investment in industrial expansion—and conditions which have been held responsible for preventing such investment apparently remain unaltered. Labor uncertainties are still present; the nation's tax load is heavy, and the relief burden tremendous; and the situation abroad still holds the seeds of war. However, these adverse factors, for the most part, are not new,

and they did not prevent a substantial measure of recovery from being achieved in 1933-37.

The crucial question is the outlook for business profits. If the existing situation allows productive enterprise to earn and retain a sufficient reward to compensate it for the risks that must be taken and the efforts that must be put forth, and if no further obstacles are placed in its way, full recovery is possible. But a necessary condition for obtaining this result is the balancing of the Federal budget; if this is not accomplished, crushing taxation or currency readjustment will bring disaster. *The Guaranty Survey*, July 25, 1938, p. 1:3.

The Place of Management Counsel in Business

Unheralded, almost unnoticed, professional management counsel has become an important institution in our business world. The extensive use and far-reaching effects of this new profession force the thoughtful executive to a careful consideration of its usefulness to him.

Consultants may be classified on various bases. Some restrict themselves to a particular type of management function, such as production, sales and finance; others specialize on one industry or one type of institution; still others concentrate on a particular type of consulting service. Consulting organizations range in size from large clinics to one-man, part-time operators. The prospective client should remember that the danger of uneven quality of personnel, incompetent subordinates, and inadequate supervision increases as the consulting firm grows in size; further, in firms which claim competence to deal with almost all management problems there is an inherent possibility of charlatanism. On the other hand, consulting firms which are too small may not possess the required degree of competence unless services are vigorously restricted to a narrow specialty.

To maximize the success of a consulting engagement it is important to ascertain that the enterprise is of a type likely to benefit from such services and that the management problem is suitable for professional counsel. In general, best opportunities for contributions by consultants appear to lie in medium-sized and small companies; there are some grounds for believing that the employment of management counsel in large concerns should be restricted to specialized studies. Problems having high functional similarity, requiring specialized knowledge, occurring infrequently, necessitating independent verification, requiring outside arbitration, or involving damaging personal relationships appear especially suited for expert counsel.

No apparent correlation exists between the caliber of a company's management and its use of consultants. Companies with progressive management are frequently more alert to the potential contributions of business consultants than poorly administered concerns which need such counsel more.

Hiring a consultant is often a basic policy decision particularly charged with emotion. Executives should be aware of the emotional and temperamental factors which are exploited by some consultants, and fortify themselves against these blandishments. A thorough investigation of training, experience, and success with former clients should always precede the employment of management counsel. The attributes of a capable consultant include: (1) an analytical approach to business problems, (2) an objective viewpoint, (3) a background of varied experience, (4) independence, (5) impartiality, (6) prestige, and (7) willingness to assume disagreeable responsibilities. Some management engineering firms rely upon the camouflage of a pompous title and an esoteric jargon to hide the inadequacy of their personnel.

In making arrangements with a consultant it is important to define carefully the scope of the engagement and reach a clear understanding of the status of the consultant, his relations with the client's organization, and the functions and responsibilities of both parties. A suitable basis for remuneration should be arranged. For most types of work *per diem* rates with an agreed maximum total seem most satisfactory. For follow-up engagements retainer fees seem particularly suitable. Fees contingent upon "success" are likely to involve disagreement or at best uncertainty regarding their amount.

The major contributions of the management engineer are diagnosis of the causes of a company's difficulties and recommendations of remedies for them. Underlying the obvious service of diagnosis and correction of defects is the basic contribution of practical, creative business research—perhaps the very essence of the consultant's *raison d'etre*. By Joel Dean. *Harvard Business Review*, Summer, 1938, p. 451:15.

Wages and Unemployment

In the sharp 1920-21 depression the acceptance by labor of wage reductions was a major factor in starting the wheels of industry. It should be an important factor in the present situation and should go a long way toward solving our unemployment problem. But today, labor leaders, and politicians who want to cajole the labor vote, are not only putting the cart before the horse but are trying to put one of the horses in the cart and make the other one carry him along. They have apparently turned their minds away from any thought of equal partnership between capital and labor to pull the business vehicle ahead.

Figures of the United States Department of Commerce show that the income of workers in manufacturing, mining and construction—three of the most completely organized trades—increased 20 per cent between August, 1936, and August, 1937. These three industries employ about one-third of our working population. The gain in income of the other two-thirds, in this same period, was only 3 per cent. The rapid increase in pay in manufactur-

ing, mining and construction naturally resulted in advancing prices for the products of these trades. As a result the purchasing power of the other two-thirds and of our entire farm population was automatically reduced. This brought about the economic dislocation in the exchange of goods and services which has caused increased unemployment.

Wage reductions of 25 per cent in 1920-21 were reflected within less than a year and a half in a 40 per cent decline in prices of finished products. In the present recession the decline thus far has been less than 8 per cent. A further decline seems necessary before there can be sustained recovery and increased employment. To effect that, the recent downtrend of wages will undoubtedly have to go further.

The "poor" and "underprivileged" laboring class for whom politicians play on our heartstrings are not poor unless they are out of work. Millions of them are out of work because of the actions of our politicians and because of the "extortionate demands and unfair practices," as Federal Judge Knox recently described them, of a large part of one-third of those who are working. It would seem but sound statesmanship on the part of labor leaders and politicians to recognize this. By John K. Barnes. *The Financial World*, August 10, 1938, p. 14:2.

OFFICE MANAGEMENT

Microfilm Saves Space and Money

Though the art of high-speed microfilming is little more than 10 years old, thousands of business organizations, banks, libraries and Government bureaus are discovering a multitude of ways in which microfilming will expedite work and save money.

Briefly, microfilming consists in photographing records, checks, letters, books, drawings and documents on 100-ft. strips of 16- or 35-mm. movie films. Though the negative film shows blacks and whites in reverse, it is as legible as a positive when inserted in a desk projector or when examined with a magnifying glass in routine reference fashion. Cartons for 100-ft. reels measure 4 x 4 x 1 in. In that small space can be filed 4812 microfilms of 3 x 5-in. cards or 2352 microfilms of standard 8½ x 11-in. letters. The permanency of microfilms is attested by the Bureau of Standards, which holds that cellulose acetate film will last as long as good rag paper.

Cost of the 16-mm. film is $5.50 per 200 ft. (two 100-ft. reels) including development; 35-mm. film, used on larger work, costs $7 per reel. One company estimates that the expense of

maintaining a six-drawer vertical file housing 12,000 5 x 8-in. cards is about $10 per year.

Department stores now make up monthly charge account statements on a single ledger sheet with no carbons; this sheet becomes the statement when mailed to the customer, and the stores' only record is a microfilm thereof. Detroit Edison puts all its engineering drawings on film, one 33 x 44-in. sheet occupying one frame of film. Great libraries the world over are making available the contents of their most precious volumes on prim 35-mm. strips of cellulose acetate. Down in Washington 36,000,000 6 x 4-in. file cards in the Census Bureau have been reduced to tiny sequential photographs which will henceforth occupy *less than 1 per cent of their former filing space.*

One microfilming machine adjusts automatically the amount of film required for making records of varied sizes. If necessary, file cards can follow letters, and letters follow cards, with each using just the correct amount of film. Equally striking is the fact that it requires less time to locate a record in a properly assembled reel of microfilms than it does to thumb through a file cabinet. *Business Week*, July 2, 1938, p. 22:2.

Sorting Simplifies Invoice Filing

It has been reported that the General Tire and Rubber Company has reduced its invoice filing cost more than 50 per cent by adopting an accumulative filing system.

This company handles about 35,000 invoices a month, which are sorted daily and accumulated to fine alphabetical and name sequence. Formerly two clerks were occupied full time on this filing operation. Now, with the new accumulative method, one girl handles the whole operation in less than two hours of each working day. The bulk filing operation, of course, requires a little additional time.

Formerly, look-ups were quite a problem on this filing job. Under the new plan, look-up facilities have been considerably simplified. For example, as has been mentioned, it had required full-time work for two girls to get invoices into the files each day. That meant that there were no look-up facilities for at least an entire day on some of the volume. Now all the volume is in the sorter within two hours. Since invoices usually are released for filing in batches, they are available for look-up practically as soon as they are received for the filing operation. *American Business,* June, 1938, p. 50:1.

Comparison of Weekly Salaries of Office Employees

A recent survey of clerical salaries paid by 207 New York City employers to more than 27,000 employees affords some significant comparisons with salary levels of a year ago.

Last year the accountants included in the study averaged $52.38 weekly; this year the average is $58.39, an increase of 11.4 per cent. The average for auditors in 1937 was $50.28; this has increased 1.3 per cent, to $50.98.

The average for bookkeepers (non-machine operators) has registered a slight increase, from $30.81 to $31.00. Typists averaged $22.17 in 1937; the figure for this year is $22.46. Salaries of dictaphone operators have increased on an average 3.4 per cent, from $24.81 to $25.65. Chief and supervisory clerks averaged $35.16 last year; this average has increased 1.2 per cent, to $35.85.

A slight decline (.3 per cent) is noted in the average salary of machine bookkeepers; this figure has decreased from $24.88 to $24.80. Other declines are as follows: male stenographers and secretaries, 1.2 per cent (from $35.45 to $35.03); female stenographers and secretaries, 1.7 per cent (from $31.08 to $30.54); telephone operators, .1 per cent (from $25.24 to $25.19); office machine operators, 2.1 per cent (from $25.53 to $24.97); and file clerks, 1.1 per cent (from $22.06 to $21.80). The salary average of all other office occupations increased from $29.17 to $30.18, a rise of 3.5 per cent.

Wide differentials are shown to exist in the salaries of each occupation. Thus, accountants' weekly salaries range from $20 to $147.50; salaries of machine bookkeepers, from $15 to $62; those of male stenographers and secretaries, from $12 to $109.61; and salaries of office machine operators, from $15 to $65.76. Industrial Bureau, The Merchants' Association of New York, June, 1938. 9 pages.

PRODUCTION MANAGEMENT

Industrial Economics: *Labor and Capital, Legislation, Wage Theory, Migration*

Executive Compensation Policies of Small Industrial Companies

The purpose of this study was primarily to analyze practices and policies of 53 "small" listed corporations in paying executive officers. Each of the companies embraced by the survey had assets of less than $10,000,000 in 1936.

The average annual dollar payment for the highest paid man in the group, ordinarily the president, was $32,000 in 1929 and $25,000 in 1936. The second highest paid man in 1936 received an amount equal to 69 per cent of that paid to the highest paid man, while the third received 43 per cent as much. Payments by individual firms to the highest paid man ranged in 1929 from $12,000 to $158,000, and in 1936 from $10,000 to $75,000.

The median percentage of earnings paid to executives in 1936 was 16.1 per cent, contrasted with 25.5 per cent paid during the period 1928-36. This

high percentage of earnings converted to executive compensation raises the question of whether too large a share of earnings for this group is being paid executives and whether the results secured by management are too meager.

In 1929 apparently about half of the small corporations used bonus plans; by 1932 this figure had declined to one-fifth of the total companies. Bonus-paying and non-bonus-paying companies paid about the same average formal salaries to presidents in 1929 and 1932, bonus payments being in addition to the formal salaries paid. Bonus payments reached a peak for this group of companies in 1929.

Dividend payment policies of these small companies indicate substantially higher percentages paid in 1936 than in 1929. When the sample is divided into relatively profitable and relatively unprofitable groups of companies, it is revealed that over the 1928-36 period the relatively profitable firms paid out in dividends only 69.6 per cent of the balance available for dividends, whereas the less profitable concerns paid 195.2 per cent. By John Calhoun Baker. *Harvard Business Review*, Summer, 1938, p. 466:15.

Industrial Injuries During 1936

Estimates based on a survey of nearly 24,000 establishments with more than 4½ million workers and on data from various governmental sources indicate that during 1936, 16,000 workers were killed, 66,000 permanently injured, and 1,325,000 temporarily disabled in the course of their employment. For the group of nearly 24,000 concerns surveyed, there were some 37 disabling injuries for every million employee-hours worked.

The highest frequency rate, 156.80, was experienced by the construction industry, in which about one worker in every four had a disabling accident during the year. Other industries surveyed which had high frequency rates were logging, sawmills, planing mills, fertilizer manufacturing, and brick, tile, and terra cotta manufacturing. But even in these industries it was found that some of the reporting establishments had very favorable accident records, indicating that accidents could be prevented. *Monthly Labor Review*, July, 1938, p. 18:13.

How Shall We Pay the General Manager?

Is $20,000 a year too much to pay the general manager of a company with an annual volume of approximately $1,000,000? This figure was the highest reported in a recent survey of salaries and duties of general managers.

The lowest figure reported was $5000; the average was $10,400. For firms with an annual volume of $2,500,000, the highest salary paid the general manager was $50,000; the lowest was $7000, and the average $18,400. For firms grossing $5,000,000 yearly, the high was $75,000, the low $10,000, and the average $30,000. In companies with an annual volume approximating $7,500,000, the high was

$100,000, the low $12,500, and the average $40,000. In nearly every case where details of salary arrangements were given, the general manager received a salary plus some kind of bonus based on profitable operation of the company of which he was in charge.

One of the most interesting points developed by this survey was the fact that many general managers have been employed by their company during all their business life. To be exact, 43.75 per cent of those who answered the question were never employed by any other concerns; and in addition to this, 18.75 per cent of those reporting have been employed by the same company all their business life except for a number of minor jobs engaged in while going to school.

The typical general manager, the survey indicates, has held a variety of jobs, working up gradually to the general management position. His average length of service as general manager is 10 years and five months. *American Business*, August, 1938, p. 12:2.

Causes of Discrimination Against Older Workers

Discrimination in employment of middle-aged workers exists in practically all industrial areas of New York State, according to the recent report of the joint legislative committee of that state appointed to investigate the subject. Among the alleged causes for this discrimination are: increased accident-compensation and group-insurance rates; the greater susceptibility of older workers to occupational diseases; increased rates for employers under pension plans; speed-up in industry; the elimination of middle-aged workers by technological changes; the belief that younger men may be hired more cheaply, are trained more readily, and are more efficient; the public demand for young people in certain occupations; the failure of employers to train employees for middle-aged usefulness; and the age limits for appointments to Federal, state, and municipal services. *Monthly Labor Review*, May, 1938, p. 1138:6.

"We Choose to Stay Small"

Many small manufacturers frequently reject money-making principles and up-to-the-minute equipment with the idea that "It may be all right for Ford or General Electric, but it wouldn't be practical in a small outfit like ours." The record of the R. G. Haskins Company, of Chicago, manufacturers of flexible-shaft portable tools and a high-speed tapping machine, conclusively disproves this argument.

The personnel of this company today numbers 28 men. The size of the plant has been purposely kept down so that it would be entirely self-contained and so that output would be good enough and small enough to insure a demand in excess of the supply. In 27 years of business the force has worked full time, with never a day of shutdown for lack of orders.

To keep costs down and quality up,

the workers are paid annual salaries. No man on the payroll has drawn less than 55 weeks' pay per year in the past 12 years, although no overtime is paid. In addition to two weeks' vacation with pay, one to three weeks' wages are given each man as a bonus at vacation time; at Christmas another bonus is distributed. In 27 years only three men have left the plant voluntarily.

The company has an unusual replacement schedule—any machine seven years old is slated for replacement. No machine is utilized to full capacity, and machines are thus in such excellent condition that, when they are sold, they average a return of 46 per cent of their original cost.

The Haskins policy is to achieve maximum output, not by driving the men but by providing them with the most modern and productive equipment. As a result of that policy, the company's workers have enjoyed year-round employment for over a quarter of a century; and though in that time the force has been increased only very gradually, production of goods has doubled and redoubled. The experience of this concern is ample evidence that scientific methods and modern equipment are practical for a small factory. By Herman Goldberg. *Factory Management and Maintenance*, June, 1938, p. 46:3.

Labor Relations: *Collective Bargaining, Employee Representation, Arbitration*

What Depression Has Done to Unionism

Depressions still are a powerful brake on the progress of unionism. Virtually every phase of the scene, from Coast to Coast, combines to reveal that all is not well in 1938 in the House of Labor.

Organization activity has slowed down almost to a standstill, except west of the Rockies, where Dave Beck and Harry Bridges are continuing their personal duel. Organizers have been dismissed by both A. F. of L. and CIO, and the expense accounts of those remaining scrutinized most carefully.

Dues payments into union treasuries are showing an alarming shrinkage. Thousands of workers who have been laid off are unable to pay; others, clinging to their jobs on a part-time basis, have soured on the organizations that were helpless to keep them steadily employed at better wages, and have seized on this condition as an excuse for withdrawal. Though, naturally, no official figures have been issued from the respective headquarters of the warring A. F. of L. and CIO, it is probably safe to say that a million industrial workers who once carried union cards or had signed applications for them have ceased paying dues.

National Labor Relations Board elections have turned from whooping CIO or A. F. of L. majorities into deficits in favor of independent groupings.

Pennsylvania has joined Detroit, Seattle, Akron and Canton, Ohio, in exposing the fallacy of claims to exceptional voting strength made by John L. Lewis.

And everywhere one senses a numbed attitude of disappointment on the part of hundreds of thousands of factory employees who had been assured they could depend on mass unionism to protect their jobs against the inevitable ravages of the recession.

The picture is not in any way pleasing to those who believe in collective bargaining, fairly and properly conducted. Unionism has suffered a major setback, and whether the forward march can be resumed after economic conditions improve is a question that cannot immediately be answered. By R. L. McCormick. *Forbes*, July 15, 1938, p. 10:4.

What's Happening to Independent Unions?

Just before the Wagner Act was passed, many observers predicted the demise of the independent union when the Act became effective. A glance at the record should induce even the die-hards to change their minds.

Admittedly, in many cases, where there has been evidence of employer domination of, or interference with, an independent union, the National Labor Relations Board has had no alternative but to disestablish such organizations. In other instances the wording of the Act has frequently caused the disestablishment of employee organizations whose sole fault has been the enthusiasm of a few employees which caused them to obtain mechanical assistance (use of company property, etc.) in the formation of the unions. Yet, despite these facts, a recent questionnaire indicates that at least 700,000 workers are bargaining with their employers through independent unions—and this figure is exclusive of the hundreds of independent unions which have sought, obtained or are seeking incorporation or registration under the laws of various states.

A statistical analysis of 79 independent unions and readapted company unions as of July, 1937, which has been made by the National Labor Relations Board, discloses that only 13 were readapted company unions and 66 were new. At this rate there would seem to be five new independents to every one that had been a company union.

Independent unions have had increasing success in Labor Board elections. A study of the 240 elections in which independent unions participated during a 26-month period ending April 1, 1938, shows that independents were victors in 125, or 52 per cent, of the elections. If we break these figures down, we discover even more interesting data. Thus, in the period from February 1, 1936, to September 30, 1937, independent unions won only 44.8 per cent of the elections in which they participated; in the last quarter of 1937

the percentage jumped to 62.9; while during the first quarter of this year the percentage of victories climbed to 64.2.

However, the real strength of the independent union movement is evidenced not in the elections conducted by Federal and state labor boards but rather in the industries and plants where no elections have been held. In some cases, of course, no outside unions have appeared in a plant or area to challenge the position of the independent; but in many instances the independent unions are so firmly entrenched in the will of the employees that the outside unions do not dare to risk defeat in an election. By John J. Collins. *Nation's Business*, August, 1938, p. 19:6.

Employee Elections Conducted by National Labor Relations Board

The National Labor Relations Board conducted 966 elections from October, 1935, when it first began to function, through December, 1937, to determine the majority choice of representatives for purposes of collective bargaining. Almost 75 per cent of these elections were won by trade unions and approximately 11 per cent by company unions.* In the remaining elections all types of labor organizations appearing on the ballot were defeated. This represents a substantial increase in workers' votes for trade unions compared with similar elections held by previous boards which functioned during the NRA.

The 74.8 per cent of the total elections which were won by established trade unions were divided as follows: unions affiliated with the American Federation of Labor, 26.3 per cent; affiliates of the Committee for Industrial Organization, 47.1 per cent. Workers in 1.4 per cent of the elections chose to be represented by such standard independent or non-affiliated organizations as the Sailors' Union of the Pacific.

There was a marked increase in the number of elections held after the Supreme Court sustained the constitutionality of the National Labor Relations Act in April, 1937. Also, the proportion of the valid votes cast to eligible employees increased from 64 per cent to over 95 per cent. By Emily Marks and Mary Bartlett. *Monthly Labor Review*, July, 1938, p. 31:8.

*The term "company union" is here used to refer to organizations of workers confined to a particular company or plant.

Union Flyers

From the store executive's standpoint, the most important type of union propaganda is that addressed to potential union members. Union handouts designed for this purpose act both as a testing device and as a weapon. A tentative handout is made, and if there is no response, the chances are that the union will not repeat its circularizing of the store; but if there are signs that employees are sympathetic, the union will go ahead with a drive.

Propaganda as a weapon is brought into play only when the employer has shown himself vulnerable. If an em-

ployer finds that the union is appealing to his employees only on general issues, he can relax; but if they are picking slight flaws in his personnel policies and procedures, he had better take heed.

The handouts vary from simple union membership application cards to two-page bulletins concerned with events and grievances. They attempt to establish a close rapport with employees by referring in a familiar manner to various store customs, executives and events, and contain a mixture of exhortation to join the union, complaints of store conditions, and store and union news. Perhaps the most frequent type of handout is a one-page flyer, bearing an application for membership. Union literature in the department store field gives no evidence of a concerted drive to unionize store employees on a national scale, but seems more like a response to unrest coming from within an individual store or community of stores. By Otho J. Hicks. *Personnel Journal*, June, 1938, p. 60:10.

Personnel

Syphilis in Industry

The recent increase in interest regarding syphilis will undoubtedly result in discovery of a large number of syphilitic individuals in industry.

Some firms are inclined to refuse employment to applicants who react positively to Wasserman tests, and in some cases even to discharge workers who are found to be infected. However, use of the routine blood test as a standard for employment is an untrustworthy yardstick. There is no sound evidence to indicate that the syphilitic worker (excluding those with cardiovascular and neuro-syphilis) is more likely to undergo material shortening of his life span, to suffer disability or sickness, or to be involved in accidents, than any other employee. Further, the type of syphilis detected by the routine serological test is usually non-infectious. Adequate treatment would certainly tend to eliminate any extra small risk which might be inherent in the syphilitic worker.

The employer's obligation to society and to his employees is much better fulfilled if the infected person is continued in his usual employment and this employment is made contingent upon immediate and prolonged treatment. If the employee is dismissed, he is lost from supervised control and may receive no treatment at all. Every effort should be made by the employer to keep his knowledge of syphilitic workers secret.

Apparently no company requires routine blood tests for its executive force, despite the fact that an executive with delusional trends of paresis may readily wreck an organization. If

syphilitic individuals are to be dismissed on pretext of danger to the company, the syphilitic executive should be ousted before the minor employees whose responsibility is relatively unimportant. (Joseph Earle Moore, in *West Virginia Medical Journal.*) *Industrial Medicine,* July, 1938, p. 467:1.

Diet and Physical Efficiency

The time of day at which food is taken by modern industrialized man is a matter which has been dictated by industrial expediency. Primitive man ate no "meals" at all—he ate when he had the urge. The formal meal for common men appears to have disappeared following the fall of Rome, only to reemerge in Charlemagne's time as a five- or six-meal-a-day regimen. In England the five-meal-a-day plan has come down to the present time for the farm laborer, and pretty much the same scheme is followed on the Continent.

Scientific tests show that an individual can work with efficiency for only about three hours after each meal. Thus if a man eats breakfast at 7 o'clock and comes to work at 8 o'clock, his efficiency begins to ebb by 10 o'clock. His midday meal is followed by a period of lethargy lasting one to one and one-half hours, because of the size of this meal. It is obvious that the three-meal-a-day regimen is unsatisfactory for workers because it lowers their muscular efficiency (and inclination to work) for a large part of the working day. On a five-meal-a-day regimen, however, the worker may be regarded as being in a state of reasonable muscular efficiency for seven hours out of the usual eight hours which he works.

Many people are affected by hyperinsulinism, which results in too quick burning of the sugar of the preceding meal. These are the persons who sneak out of the office for coffee or Coca-Cola (the lineal descendant of the Englishman's afternoon tea). They are usually regarded as lead-swingers and are said to be lazy. Actually, they are primarily in need of facilities through which they may obtain a small meal without resorting to subterfuge. Late forenoon and late afternoon lassitude is due to lack of food, not fatigue. The situation can be met only by the provision of a mid-forenoon and a mid-afternoon meal, which should consist largely of carbohydrates. By Dr. C. C. Birchard. *Proceedings of the National Office Management Association: 1938,* p. 99:6.

Plans for Rating Employees

Information received from 94 companies, employing 618,127 persons, that have formal plans for the periodic rating of employees indicates that:

Forty-seven, or 50 per cent, have had formal rating plans for 10 years or less, although 11 companies have had rating experience for 20 years or more.

Most companies make periodic appraisals of employees in the lower position levels of wage earners and clerical workers, but over one-half of

the firms rate foremen and supervisors, and nearly one-third rate executives.

Approximately 73.2 per cent of the total reported employment is periodically appraised by management. Replies indicated that a larger percentage of employees are rated in the 45 nonmanufacturing companies than in the 49 companies in manufacturing industries.

In 73, or 77.7 per cent, of the companies, ratings are made once or twice annually, although new employees are frequently appraised at shorter intervals. Seventeen per cent report that employees are rated more often than twice a year.

In 82, or 87.2 per cent, of the total companies, employees know that they are periodically appraised, and 63 firms permit employees to challenge the ratings.

Most of the 17 companies having labor agreements as well as many others without union contracts find that a rating plan is helpful in adjusting grievances which arise when ability is considered as one factor of seniority.

The practice of rating is a definite aid to management in promoting fairness and better understanding in regard to many of the decisions which affect the status and progress of employees.

Training supervisory groups to do a better job of rating has been an important and necessary part of the program in nearly 60 per cent of the companies.

Studies in Personnel Policy, National Industrial Conference Board, June, 1938. 40 pages.

(Several significant tables are included in this publication, and the final 20 pages are devoted to reproductions of specimen rating sheets—*Editor.*)

Making the Interview Count

Success as an executive is due as much to personality makeup as to technical ability, for, in order to lead, an executive must be able to enlist the cooperation of his subordinates. Accordingly, in selecting men for supervisory and managerial positions, psychological measurements should be supplemented by interviews to evaluate the candidates' personality. In conducting such interviews, five considerations must be kept in mind:

1. Don't ask direct questions. It is futile to ask a man whether he has a balanced personality or is free from infantile traits, for in every case an affirmative answer will be given.

2. Get the man to talk. Too many interviewers do too much talking themselves. Though an applicant may not always tell the truth, if he talks enough he will usually reveal himself sooner or later.

3. Put the applicant at ease. About 85 per cent of those to be interviewed will talk freely in a friendly and somewhat informal atmosphere.

4. Take sufficient time for the interview—at least half an hour.

5. Keep personal bias out. The best way to minimize prejudices is by use of a standardized interview form, basing judgment, insofar as possible, on specific and objective items and

factual questions to which answers are obtained in an apparently informal interview.

Usually the interview is opened by asking the candidate to tell about his previous work. From this point the interviewee usually determines the course of the conversation, though he should be kept from wandering afield. Properly directed, such an interview will frequently disclose inconsistencies, concealments, undesirable traits, personality peculiarities or infantile characteristics. A record of jobs held only a short time may be illuminating. Reasons for leaving previous jobs may be especially enlightening, and in this regard transparent justifications and excuses will give the clearest proof of emotional inadequacy. By Robert N. McMurry. *Factory Management and Maintenance*, May, 1938, p. 62:5.

Benefit Systems and Incentives: *Pensions, Profit Sharing, Suggestions, Vacations, Stock Ownership*

10,000,000 Meals for Workers

In mid-July the Westinghouse Electric & Manufacturing Co. opened a new $100,000 cafeteria at its East Pittsburgh works, spotlighting employers' attention on workers' cafeterias and lunchrooms.

Today, according to a recent survey by the Metropolitan Life Insurance Company, there are approximately 4800 lunchrooms in factories, mills, banks and commercial offices. While some of these have been operating only a short time, others have a background of many years.

Since 1893 Westinghouse has served approximately 10,000,000 meals to employees. And in contrast to coffee and cream served during the first days of the company's cafeteria, today approximately 500 pounds of meat, 300 pounds of vegetables, and 100 gallons of coffee, tea and milk are dispensed daily.

The new cafeteria has 100 tables, with 30 chefs and waitresses to serve 1200 employees in two shifts. And the room itself is soundproof, windowless and air-conditioned. *Forbes*, August 1, 1938, p. 17:1.

The Thrift Plan Comes of Age

An employees' thrift plan of wide flexibility and comprehensive security features is that of the Standard Oil Company of New Jersey.

This plan, inaugurated in January, 1936, has enabled employees to deposit from 3 to 13 per cent of their current earnings. On the first 3 per cent the company has matched employee contributions dollar for dollar. It has added 50 cents on the dollar for employee deposits above the 3 per cent minimum. In addition, the company

indicated that it might make supplemental deposits into the fund from time to time; these thus far have totaled $6,000,000.

In the use of his accumulating credits the participating employee has a wide range of choice. A percentage equal to at least the amount of the company's regular contributions must be allocated to the purchase of group annuities. Part of an employee's credits over and above those for group annuities cannot be liquidated unless he leaves the company, retires or is discharged. Beyond that, the worker may withdraw a percentage of his savings yearly or may utilize his credit for the purchase of additional annuities, insurance, and company stock, or for payment of dues in an approved mutual hospital or medical association. *The Lamp,* Standard Oil Company (New Jersey), April, 1938, p. 3:2.

Geared Compensation

Wage and salary policies today are so rigid that it has become impossible properly to adjust current outgo to current income. The need is for some system of compensation which will allow wage and salary scales to vary in proportion to the volume of business.

Several companies have adopted the following flexible pay plan as a means of increasing employee security and reducing industrial unrest:

First put as many workers as possible on a salary basis. Then, having estimated the lowest volume of business which may be expected in the year to come, and giving due consideration to the requirements of an adequate standard of living, establish base salaries at a level which can be paid during poor times as well as good times. After this, build up a schedule of additional compensation, on a basis proportionate to additional earnings, varying the rate of additional compensation in accordance with the position and needs of various classifications of employees.

Employees should be divided into at least three groups. Top executives should receive the largest rate of increased compensation out of additional earnings; junior officers and department heads, a smaller rate of additional compensation; and other salaried employees, the smallest rate of extra compensation.

After shareholders have received a fair profit, all additional earnings above the minimum should be distributed at the predetermined rates among the three groups. Increases in compensation may be given month by month in accordance with the volume of monthly earnings. In one company the bonus rates might be 10, 25, and 75 per cent; in another concern the figures might be 25, 50 and 100 per cent. Actual working of the plan must depend upon conditions in the individual company. By G. T. Trundle, Jr. *Steel,* July 25, 1938, p. 32:3.

To Help Workers Save

Late in June two companies reported new plans to help employees save for the future:

1. The American Telephone and

Telegraph Co., in addition to its savings-bank plan for employees, has set up a savings system to encourage workers to buy U. S. Government "Baby Bonds." Under this arrangement employees may authorize deductions from their weekly pay checks from 75 cents up. When savings accumulate to an amount sufficient to buy a bond—five denominations are offered, from $25 to $1000—the company will make arrangements for the purchase. More than this, the company will not only act as the Government's agent in distributing the bonds but will also assume the handling of collections, bookkeeping, and various incidental costs.

2. The Long Island Produce and Fertilizer Co. has organized a new trust plan for all employees with two years of service. Under this plan the company will match employees' contributions, dollar for dollar, to establish an individual trust fund for every employee who contributes. A local bank will handle the funds and investments, and life insurance protection will be given to every contributor. To start the savings ball rolling, the company has announced salary increases for all office employees. *Forbes,* July 15, 1938, p. 17:1.

Training and Education: *Schools, Libraries, Employee Publications*

Motion Economy for All

International Business Machines Corp., Endicott, N. Y., has extended its motion study discussion classes to nearly 600 machine operators and other shop employees.

The material used in these discussions is essentially the same as that used in the foremen's courses. Primarily this is a project course; the printed lesson material is used only for reference. The discussions are devoted to illustrating the application of motion economy principles to specific jobs on which employees comprising the class work every day.

The devices that have proved most effective in putting this program across have been: (1) motion pictures which exemplify operations before and after application of motion study principles; (2) lantern slides illustrating typical work-space layouts and process charts; (3) process charts; and (4) individual projects. The films and slides serve as the basis for class discussions.

During the course the class analyzes, and develops process charts of, various operations, suggests and discusses improvements, then draws up charts of new methods—many of them very effective. Eventually each member of the class is asked to make a process chart of some job he does in the shop; he is then requested to apply the principles of motion economy to this job,

work out an improved method, and develop a process chart of the new method. Motion pictures of "before" and "after" methods of the best projects are then made and are included in discussion by the class.

Classes are purely voluntary and are held outside regular working hours. Employees applying for the course are divided into groups of about 20, all of whom work in the same department or on related types of work. Instructors are selected from the regular personnel of the Standards Department. By B. C. Koch and P. A. Robert. *Factory Management and Maintenance*, June, 1938, p. 56:4.

Let's Break the Silence Between Employer and Employee

Since November, 1937, more than 400 *new* company house organs have appeared on the scene; many of them were started after the first of this year. A great many schoolboy sheets were cleaned out by the depression: whereas in 1930 the number of employee periodicals produced by professional editors was 32 per cent of the total, today better than 73 per cent of plant publications are edited by professionals.

There should be nothing paternalistic about the company house organ of 1938. Nor should it be a medium thrown together in hodge-podge fashion; careful editing and judicious selection of contents are necessary. The following list indicates effective distribution of editorial matter for an employee magazine:

1. Employees' welfare (safety, group insurance, special events, credit union, buying opportunities, athletics, health, social): 30-40 per cent.

2. Personals (social, weddings, births, deaths, humor, personal real estate news, changes): 20-30 per cent.

3. Management policy (direct messages, indirect messages, payroll policy, production news): 15-25 per cent.

4. Production (suggestion system, cost news, "men and machines," views, ideas): 15 per cent.

5. Production (current and future promotions, markets): 6 per cent.

6. General (editorial and inspirational): 4 per cent.

By William P. Opdyke. *Connecticut Industry*, August, 1938, p. 9:3.

American Industry Reports Its Operations

For several years business management has been subjected to sustained and bitter attack; the impression has been conveyed that huge profits were being made at the expense of decent wages and that it was necessary to pass restrictive and punitive legislation in order to hold the rapacity of the owners of business within fairly reasonable bounds. Today, business executives, sensing the necessity of taking their side of the story—the facts in the case—to the public and in particular to their employees, are actively seeking the clearest and most intelligible form in which to present information about the company's op-

erations and progress to employees.

One type of report to employees which attracted widespread attention early this year is a special analysis of the preceding year's operations of the company, comparable in general form to the usual report to stockholders; this report is simple and graphic rather than detailed and technical. The purpose has been to present in popular style an easily understood account of the company's affairs. Some of these reports also treat of the history and progress of the company, describe its sources of materials and the markets for its products.

A similar report of all industrial concerns combined—a report of American industrial management to American stockholders and wage earners—has been constructed by Dr. Robert F. Martin, Director of Economic Research of the National Industrial Conference Board, for each year from 1929 to 1935 inclusive, the latter being the latest year for which complete data are available. This report explains simply and clearly the distribution of American industrial income, proves that wages and salaries are paid before dividends, and shows a return to the owners of business of 4.6 per cent of the total income of industry—not an excessive amount, when part of that is drawn from capital and when employees are receiving an amount nearly four times as great. By Harold F. Browne. *Conference Board Service Letter*, May 31, 1938, p. 33:4.

MARKETING MANAGEMENT

Field Warehousing: Its Place in Distribution

Field warehousing has proved an effective means of accelerating inventory turnover and increasing the margin of business earnings.

If you have the chance to take a large volume order for your regular product, don't hesitate because of limited working capital. If your order is from a responsible company, you can easily induce your banker to finance this extra large operation when he knows his advances will be protected through the issuance of field warehouse receipts. Under such circumstances the manufacturer with a good reputation finds that his banker shows no hesitancy in lending the funds necessary to buy raw materials.

These supplies are delivered to your plant and are stored under security of a field warehouse receipt. Through execution of a lease agreement with a warehouseman it is possible to establish a bona fide public warehouse on your property and to segregate and properly secure the goods through the appointment of a bonded custodian. Thus all the materials needed for this special volume

order have been purchased at maximum discounts and are on your own premises for immediate use as released. When made up into the finished product, this marketable merchandise is secured in a second field warehouse until delivered against the buyer's payment. Therefore, since the lender has protection before and after fabrication for the money he advances, your only cash requirement is enough to meet the cost of work in progress.

Aside from the possibility of an unusual volume order, you can profitably employ this practice in your regular operations. Some of the immediate results will be seen in a smoother flow of materials, more even production schedules, and a higher percental return on your working capital—all of which are well worth gaining. For progressive operators of established responsibility, field warehousing has proved to be practical and profitable. By Henry Paulman. *Advertising & Selling*, August, 1938, p. 54:3.

High Lights of Fair Trade Effects

Fair trade contracts have become a dominating factor in the drug, liquor, book and tobacco industries; in the hardware field the reaction is favorable; in the field of electrical appliances the problem of trade-in allowances is the big headache; in the stationery and jewelry fields diversification of trade has been the main obstacle.

A distinctly positive influence in price maintenance is the pressure exerted by a powerful group of independent retailers, which has greatly influenced the manufacturer's price policy. Chief results are convergence of prices of competitive products and increase of indirect price concessions, such as use of the large-size package, the one-cent combination sale, and the premium offer. Price quotations have been affected mainly in connection with fast-moving items which had been used as loss leaders. Increased output of private brands to make good possible loss in the sales volume of nationally advertised brands was predicted, but this policy has not developed to any considerable extent.

Wholesalers have generally been benefited by the stabilization of retail prices, for they are indirectly accorded the protection directly provided for their independent retailer customers. They desire to use the fair trade laws as a means of encouraging distribution through the exclusive wholesaler-retailer network. Independent retailers in almost all branches of business have endorsed the fair trade principle. A considerable majority give preferential treatment to price-stabilized brands. The chain stores have widely cooperated with retailers in price maintenance, though they are seeking to develop new price leaders through pump priming sales. Department stores and mail order houses have tried to obstruct the progress of price maintenance by promoting their private brands, but the comparative quiet on the department store front during these last months bespeaks the failure rather than the success of their promotional campaigns.

Nevertheless, various forces are working against price control. Notable among them are the increased momentum of the repeal movement and the difficulties of enforcing the laws. *Trade Regulation Review*, Summer, 1938, p. 1:1.

Form Chart for Picking Sales Winners

How to pick winning salesmen—that is the eternal problem of sales managers. In an attempt to solve this problem, the Guardian Life Insurance Company has evolved an unusually effective personal rating chart which might be utilized to advantage in other types of business.

In great detail the chart assigns points for age, education, marital status, previous experience, financial status, years of living in the community, and employment record. Twenty points is the highest possible total. There are penalty points for qualifications which the applicant may lack. The final score is found by subtracting the penalty-point total from the good-point total.

With 20 points as the perfect score, 16 points is the floor level below which applicants are considered undesirable. There is good reason for this floor level: In the records of actual sales results, 19-point men average 25 per cent below 20-pointers, 16-point men average 65 per cent below 20-pointers, and the entire group above the 16-point floor level averages twice as much as all the men below it.

Use of this chart has resulted in a substantial increase in sales. So effective has it proved that the company gives men who have passed the chart, in selected agencies, the choice of higher commission or salary and commission—thus backing up its faith in the chart with cash.

It is not claimed that the chart is infallible but merely that it will show which applicants are least likely to succeed. By J. C. Slattery. *Forbes*, June 15, 1938, p. 35:1.

Intelligence Differences in Reaction to Advertisements

Although sex differences in reaction to advertisements have been studied to a fairly large extent, intelligence differences have not been investigated at all. The study reported here was conducted to determine whether individuals of different grades of intelligence differ in their reactions to advertisements, and to discover what lines such intelligence differences follow. Forty-six children in the third term of high school, rated high, average, and low in intelligence, were asked to rate 48 advertisements.

All three groups preferred color to non-color advertisements, but with increase in intelligence of the group judging, the difference between the average ratings given the two decreased. While advertisements with pictures of people were rated higher than those with pictures of objects, the more intelligent the group judging, the greater was the superiority of the advertisements with pictures of people over those with pictures of objects.

Three humorous advertisements included in the study evoked a more favorable response from the high than from the average, and from the average than from the low, intelligence group. Advertisements which were largely pictorial were favored above the copy advertisements, but with increase in intelligence of the group judging, they possessed a decreasing advantage over the copy advertisements. The ratings on two advertisements differing only in that one used a positive and the other a negative appeal revealed that the average group favored the positive appeal overwhelmingly, that the high group favored it a good deal, and that the low group ranked it the same as the negative appeal.

It has been impossible to determine the statistical reliability of this data as yet, but definite information concerning preferences of different intelligence groups would be a step toward the immensely desirable economy of effort in advertising. By Naomi Schiller. *The Journal of Applied Psychology*, April, 1938, p. 169:6.

FINANCIAL MANAGEMENT

Tomorrow's Taxes

What's ahead in taxes?

There is only one answer that can be given with a reasonable degree of certainty: Little relief can be expected from the Federal Government, which is still running a high deficit fever and demanding more money to slake it. Both the President and the Treasury have indicated that the entire tax structure will be overhauled next year; both have also stated that they will insist on the return of a substantial undistributed profits tax. However, the fall elections will probably determine whether or not the tax will be reenacted, and in the meantime those corporations which desire to conserve capital can omit the payment of dividends without incurring serious tax penalties.

As an indication of the trend of taxation, the Revenue Act of 1938 is of little significance. It does, however, emphasize the increasing advantage of partnerships over close corporations. In anticipation of an energetic prosecution of the law, the one apparent tax factor favoring the successful close corporation—the opportunity to withhold dividends when such dividends would be taxable to the individual stockholders at too high a surtax rate—has disappeared. In contrast to close corporations, partnerships now possess every tax advantage; thus in some cases closely held corporations may profitably consider the tax advantages of the partnership form of business—provided unlimited liability is not too strong a deterrent.

To exemplify the penalties that are being imposed on close corporations,

let us assume that the X Company of Maryland (a relatively favorable state for corporations) earns $96,000 a year with a capital stock value of $400,000. Its three stockholders, A, B and C, each hold a one-third interest; each, as an officer, draws a salary of $20,000, and each receives annual dividends of $12,000. Under such circumstances the total yearly taxes would be $21,149.50. On the other hand, if the organization were a partnership earning $96,000 annually, with three partners, A, B and C, *the total taxes would amount to $12,529.50, and the tax saving would be 40.8 per cent.*

Clearly, if the present trend of corporate taxation continues, close corporations are doomed. By J. Blake Lowe and John D. Wright. *Barron's*, August 1, 1938, p. 3:1.

Is It Possible to Reduce Fluctuations in Profits?

The adoption of certain accounting practices, though they might represent a departure from accepted procedure, could do much toward reducing fluctuations in industrial profits.

One such practice is the establishment of standard factory overhead rates based on the average of good and bad years combined. If these rates are used for all cost compilations in both good times and bad, the effect will be to show costs higher than actual in good times and lower than actual during depressions.

A further step might be to set aside as a reserve all the over-absorbed burden which would naturally accumulate in good times when standard burden rates are higher than necessary. This reserve could be drawn on in poor years to take care of the unabsorbed burden which would be likely to result from using standard burden rates at a time when factory production was below normal.

In connection with inventory valuation it might be practicable to adopt a permanent pricing basis which in all probability would be substantially below cost in periods of prosperity. Some companies observed this practice during the War, continuing to use 1914 prices in valuing their 1915 and subsequent inventories. In years of good profits, usually both prices and the quantities in stock increase, both of these factors resulting in large inventories which, incidentally, are often never liquidated at full value. If these stocks were valued on a permanent low pricing basis, the effect would be a conservatively valued inventory and a reduction in profits through pricing the increased goods on hand at less than cost. Conversely, the advantages of such a policy in periods of declining business are obvious. By R. B. Taylor. *Business Management*, July, 1938, p. 14:2.

An Analysis of Debt-paying Ability

Various methods and ratios for measuring the current financial condition or debt-paying ability of a business have been developed and adopted by financial controllers, credit men and other statement analysts. None of the

measures thus far formulated, however, gives an inclusive picture of the probable *immediate* debt-paying ability of a concern.

Without changing accepted bookkeeping procedures or materially increasing the work required of the bookkeeping staff, it is possible, by compiling what may be termed "analytical working capital schedules," to present with greater clarity and dependability the relationship of various factors affecting a company's debt-paying ability. Such schedules, supporting the "current" section of the balance sheet and prepared at frequent intervals, should prove a boon to controllers and grantors of short-time credit.

In preparing analytical working capital schedules, current liabilities are classified according to those which become due within 30, 60, or 90 days, and those over 90 days. Each current asset is then broken down on this 30, 60, and 90-day basis according to the time when it will probably represent a realization of cash. This breakdown is based upon the company's past experience, taking into consideration current sales volume and especially collection experience. In other words, the breakdown is designed to care for both cyclical and seasonal variations.

When the various asset items are summarized and shown with the liabilities, it is possible to determine if on the date of the balance sheet a proper *time* as well as *amount* relationship exists between the assets and liabilities, and as a consequence to check the probable debt-paying ability of the concern. By Frederick W. Woodbridge. *Southern California Business Review*, Summer, 1938, p. 1:8.

(Typical "analytical working capital schedules" are reproduced and interpreted in this article—*Editor*.)

INSURANCE

Insurance abstracts are contributed by P. D. Betterley, Insurance Consultant, Graton & Knight Company.

Apportionment of Loss in Fire Insurance

Professor Ralph H. Blanchard makes an excellent presentation of problem cases showing convincingly the need for concurrency in insurance contracts.

Contracts which are precisely alike in their terms and in the description of the property (though they may differ in amount of insurance) are said to be concurrent. Where contracts are non-concurrent in the description of the property, but otherwise concurrent, and where the collectible loss is not reduced by the application of coinsurance, reduced-rate-contribution or average clauses, the problem is equitably to divide the insurance covering the variously described property.

If, for any reason, an insurer will not, or cannot, pay, the insured will be

concerned to obtain the adoption of a rule which will reduce that insurer's share of the loss to a minimum. A wide variety of rules has been advanced and used in cases of this sort, but none of them is either demonstrably sound in theory or universally applicable in practice.

Careful checking of policies for concurrency both as to description of property and as to terms has done much to eliminate the cause of apportionment problems, but there will always be troublesome cases, particularly where insurance on the same property is written at different times. This difficulty is often avoided abroad by the preparation of a single contract which the various insurers subscribe. *Journal of American Insurance*, May, 1938, p. 11:4.

Strike Injuries Lead to Big Claims

Suits aggregating $560,000 for injuries sustained in the Decoration Day strike riots in Chicago in 1937 have prompted insurance men to consider whether such claims would be covered under a manufacturers' public liability policy. Coverage would evidently depend on the language of each policy.

One of the first questions is whether the striker is an employee or not. Many manufacturers' liability policies exclude coverage on claims by employees, whether a strike skirmish pertains to or grows out of the operations of the employer. Some policies closely limit the injury to the insured location described.

The very ground for such claims precludes the idea of accident and hence takes the case out from under some liability policies. To close this gap in the coverage, a so-called "assault rider" has been devised.

The article presents comparative wordings of the liability policies of 10 different underwriting companies. It should be very instructive and helpful to readers to compare their own insurance coverage with the features which are analyzed in this study. *The Casualty Insuror*, June, 1938, p. 4:2.

May Waive Excess Charges on Compensation

Rates and rules which permit an assured, for additional premium, to obtain waiver of all or part of the retrospective premiums in excess of the standard premium on workmen's compensation insurance have been adopted by the Compensation Insurance Rating Board of New York.

By insuring possible debits under the retrospective rating plan through this method, the assured does not deprive himself of possible credits. The rules provide that the waiver agreement shall be negotiated prior to the effective date of the retrospective contract. *Journal of Commerce*, New York, May 19, 1938, p. 8:1.

Change in Risk Voids Policy

A recent insurance lawsuit involving a robbery policy presents an unusual situation which will interest those concerned with this form of coverage. The particular decision, which upheld

the defendant company, was handed down by the United States Circuit Court of Appeals, Fifth Circuit, in the case of Daiches vs. United States Fidelity & Guaranty Company, reported in 93 Federal Reporter (2nd) 149.

The policy in this case covered against loss by robbery occurring "within the premises during the hours beginning 7 o'clock a. m. and ending 12 o'clock p. m., while the custodian and at least one other employee of the assured are on duty therein." A "Change of Risk" clause provided that "if the assured is unable, because of an unforeseen contingency beyond his control," to do and perform any of the things required by the declarations, thereby increasing the risk, the insurance should not be forfeited, but the amount of coverage should be reduced to the amount which the premium actually paid under the policy would have purchased for the actual risk under which the loss was sustained.

The carrier, in denying liability under its policy, had contended that the loss occurred while only one employee was on the premises and hence that no liability existed. *The Spectator*, June 2, 1938, p. 20:2.

Survey of Books for Executives

Industrial Price Policies and Economic Progress. By Edwin G. Nourse and Horace B. Drury. The Brookings Institution, Washington, D. C., 1938. 314 pages. $2.50.

The message of this book is the Filene-Ford doctrine of mass production, mass distribution, technical improvement, reduced prices, and adequate purchasing power. Manufacturers should ever seek to produce in large quantity to reduce unit cost, make it possible to price goods so low that many people can buy, keep factories busy, maintain employment, and incidentally assure a reasonable profit return.

The authors put the problem squarely up to the business man. It is his to solve. They advocate no facile solution, no panacea, no simple scheme, no slight modification which would cure everything. The business man must assume a dynamic approach to prices. His decisions must not be too closely geared to back-looking cost accounting techniques, to statistical facts representing what has happened rather than the possibilities of the future, to rules of thumb. He must be courageous and look into more than the immediate future. He is responsible for keeping his factory going and should price his goods low enough to enable him to keep up employment.

The junior author may have profited by long experience in pricing under the NRA. At least the authors avoid many of the delusions with which our age is cursed. They do not preach that competitive capitalism has been brought to a close, but they realize that pricing is not the simple thing sometimes described in economic textbooks and that there are market considerations other than price.

They think that banker control is over-conservative and that Ford had to avoid it to make his contribution. Trade associations, they believe, tend to retard the pace of the progressive organization. Limitation of the size of an enterprise may make it impossible to perform functions not only for technical but also for economic reasons.

The volume is a natural outgrowth of The Brookings Institution Falk Foundation Series. Some of the preceding volumes were quantitative in outlook, but this one is largely qualitative. The result is a realistic analysis of price problems as they confront the business man, but the method used is open to the criticism of generalization from a few cases.

The authors state explicitly that they are concerned with long-run influences only and are avoiding prosperity problems. In this the reviewer believes that they are in grave error. Unbalance is essentially a short-run problem. Many of the situations they picture arise from the over-optimism of prosperity. Their doctrine as a cure for over-optimism appears to be avoidance of over-optimism. Nevertheless, there is much more need for price-cutting than many are willing to admit. Very often prices are fruitlessly pegged up in depression.

Too much faith is put in the efficacy of driving down prices as a method of keeping factories going at full steam. Durable goods are most in need of stimulation in depression, and it has not been proved that price declines will bring it in an autonomous fashion. Understanding the laws of economic growth involves more than knowing what price cuts might do. On the other hand, we have not fully exploited the possibilities of cutting prices.

Reviewed by Elmer C. Bratt, Lehigh University.

Incentive Taxation: A Key to Security. By C. William Hazelett. E. P. Dutton & Co., Inc., New York, 1936. 195 pages. $1.00.

As a unique contribution to economic thought designed to provoke active discussion and debate, "Incentive Taxation" has distinct merit. As a possible cure for the economic ills that beset us, however, Mr. Hazelett's ingenious theory is inadequately and unconvincingly presented. An obvious weakness in the tax philosophy expounded in this small book is the fact that the reader, at the outset, is obliged to accept as indisputable the author's premise that economic depressions result primarily from strikes on the part of Capital or Labor, or both. If this assumption is accepted as truly founded and not an over-simplification of a vastly complex problem, then the

proposed solution is one that is worthy of the consideration of every taxpayer. On the other hand, *can* the serious student unquestioningly accept such a premise as a basic truth? I think not, for to delve into the study of the economic causes of depressions is to become convinced that they are not so easily isolated or so readily defined; the ramifications of our economic structure are far-reaching, intricate, and delicately balanced to the point of capriciousness—and so deep-rooted as to defy analysis even by the most brilliant contemporary economists.

According to the author, economic stability and security are dependent upon continuous production and employment; production on the part of Capital must be prompted through "incentive taxation," by decreasing the tax rate as production increases and increasing the tax rate as production decreases. Capital should be rewarded for increased use, irrespective of earnings, and conversely, penalized for its inactivity—exactly the reverse of income taxes as now levied on business.

Assuming that such a method of taxation could be put into effect successfully to prevent strikes on the part of Capital, the author, to be consistent in his argument, might well have prescribed similar treatment for the worker. Why should not the worker pay a direct tax on normal activity, and be rewarded for increased production and penalized progressively for inactivity? The treatment of Labor should be identical in principle to that of Capital.

Surely no student who believes in the enterprise system can find fault with the aims of incentive taxation. But many will, I believe, vigorously oppose the deliberate use of the taxing power for the purpose of economic regulation and control. The author frankly admits that he advocates vesting in the Revenue Department of the Government the power to accomplish, through taxation, the desired economic objectives—a tax doctrine invariably regarded with suspicion and strongly opposed by conservative tax experts, who believe that the power to tax should and must be confined *solely* to the raising of revenue required for the *legitimate* cost of government.

In simple concise terms this book outlines many of our present-day economic difficulties and their causes, and for this reason alone it can be recommended to anyone interested in a brief but telling resume of contemporary economic problems.

In addition to the obvious shortcomings of such a system of taxation, its practicability is questionable. The author states that incentive taxation will not function successfully unless applied to all classes of taxpayers in all localities at the same time. Just how this revolutionary change from our present system (which admittedly is in need of drastic change!) would be effected, is not disclosed. Indeed, it is rather evident that the author himself realizes the inadequacies inherent in his own proposals, as he mentions that an exception would have to be made where industrial inactivity results from causes "beyond the owner's control." No explanation is of-

fered as to what procedure would be adopted by tax administrators to determine whether or not a taxpayer's failure to produce was due to causes beyond his control.

One concludes, not without regret, that the earnest efforts of the author are not likely to result in the sorely needed reform of our present tax structure with its multitudinous duplications, insidious complexities and proved uneconomic consequences. However, as a stimulus to further study and research and bold, liberal thought, this interesting treatise serves, quite admirably, a definite and worthy purpose.

Reviewed by J. W. Oliver, Secretary, The Linen Thread Company, Inc.

Modern Money. By Myra Curtis and Hugh Townshend. Harcourt, Brace and Company, New York, 1938. 291 pages. $2.50.

Books on the subject of money have not been lacking in recent years. There have been volumes of a technical nature, studies which examined its special phases, and a number which were devoted to the very large topic of inflation. The present volume is addressed to the general reader who wants to know how the action of money markets and the banks affects his bread-and-butter existence.

The authors are two well-known economists who write in the hard-headed style of the financial page. Much of the discussion has to do with British and European monetary systems but sufficient attention is given to American problems to allow intelligent perusal by the general reader in the United States.

Salary Directory of the Principal American Executives: 1937-1938. Universal Syndicate, New York, 1938. 146 pages. $15.00 (including supplements).

This is the initial volume of a yearbook which is intended to provide a compensation record of outstanding executives in the United States. It covers the fields of commerce, industry, banking, insurance, amusements, railroads, and utilities, and lists salaries for the interval from mid-1936 to mid-1937.

The first section of the book gives names of companies in alphabetical order, addresses, number of subsidiaries, nature of business, and names of officials with designations of their positions and annual salaries. Following this is a supplement which provides similar information for additional companies and includes home addresses of officers. The third section covers individual ratings (revised to January 31, 1938) of persons receiving aggregate compensation or income from various companies or sources. Concluding the book is an index of all those listed in the preceding sections.

The section devoted to individual ratings is replete with interesting figures. Topping the list are John D. Rockefeller, Jr. ($4,200,000), J. P. Morgan ($3,750,000), Henry Ford

($3,700,000) and E. S. Harkness ($3,625,000). Seventy-one individuals have yearly incomes of a million dollars or more. Among the women with incomes in the seven-figure group are Mrs. Andrew Carnegie, Mrs. Matthew Astor Wilks and Eleanor M. Patterson (publisher of *The Washington Herald)*. First among the cinema lights is Gary Cooper ($370,000), nosing out Colbert and Garbo. Clark Gable is inexplicably omitted. Bing Crosby rates $319,000; Walter Winchell, $60,000; Al Smith, $45,000.

The publishers declare that the directory "embraces the names of all personages prominently associated with larger organizations of the nation." However, the volume lists only 1000 corporations and 10,000 individuals, with salaries or incomes ranging from $3000 to several millions, while Treasury statistics indicate that more than 500,000 persons receive annual incomes of over $5000.

But despite its obvious deficiencies, the book is an interesting innovation in the field of manual publications.

Briefer Book Notes

ECONOMIC CONSEQUENCES OF RECENT AMERICAN TAX POLICY. By Gerhard Colm and Fritz Lehmann. New School for Social Research, New York, 1938. 108 pages. $1.00. Both economic and social consequences of contemporary Federal tax legislation are here subjected to a careful, objective and impartial analysis. In conclusion the authors suggest several alternatives of policy to eliminate harmful economic tendencies prevailing under the existing system of taxation.

RESOURCES AND DEBTS OF THE FORTY-EIGHT STATES: 1937. By Edna Trull. Dun & Bradstreet, Inc., New York, 1937. 110 pages. $2.00. A study on public credit and public borrowing in relation to resources for payment. The book is liberally illustrated with charts and tables showing trends and comparisons in state and local credit policies.

ECONOMIC BRIEF IN SUPPORT OF NEW YORK STATE UNEMPLOYMENT INSURANCE LAW. Division of Placement and Unemployment Insurance, State of New York Department of Labor, Albany, 1937. Second edition. 356 pages. $1.00. Several important documents have been added to this brief which was submitted to the Supreme Court in 1936 in defense of the New York State Unemployment Insurance Law.

RESOURCES FOR LIVING. By Gaius Glenn Atkins. Harper & Brothers, New York, 1938. 254 pages. $2.50. In a dignified and forceful manner Mr. Atkins presents "a plain man's philosophy" for living a satisfying modern life. Work, play, art, friendship, love and religion are examined to discover their place in making existence worthwhile. The author displays a keen appreciation of contemporary personal needs.

PUBLIC UTILITY REGULATION. By G. Lloyd Wilson, James M. Herring and Roland B. Eutsler. McGraw-Hill Book Company, New York, 1938. 571 pages. $4.00. This volume analyzes the nature, extent and problems of public utility regulation in the United States. It deals with the historical development of regulation, the emergence of the state public utility commission, and the expanding role of the Federal Government in the control of public industries. A critical viewpoint is maintained throughout.

MODERN SALESMANSHIP. By J. George Frederick. Garden City Publishing Co., Inc., Garden City, New York, 1937. Revised edition. 347 pages. $1.00. Personal qualities important to salesmen are listed, modern salesmanship defined, the art of prospect study and demonstration methods and strategy in sales argument developed, and the progress of American salesmanship reviewed. The book also contains "The Perfect Salesman Test," a tested list of 50 questions to determine the worth of a salesman.

EFFECTIVE SPEAKING. By Arthur Edward Phillips. The Newton Company, Chicago, 1938. Revised edition. 384 pages. $2.00. The principles of effectiveness in speech are set forth clearly in this volume, and a practical method of classroom instruction is provided. A complete set of exercises and questions is included.

TAX RELATIONS AMONG GOVERNMENTAL UNITS. By Roy Blough et al. Tax Policy League, Inc., New York, 1938. 226 pages. $2.75. A valuable approach to a relatively neglected and increasingly critical phase of public finance. The authors consider federal-state tax relations, interstate tax relations, federal and state aid, and state control of local finance.

NATIONAL ASSOCIATION OF RAILROAD AND UTILITIES COMMISSIONERS: PROCEEDINGS OF FORTY-EIGHTH ANNUAL CONVENTION. State Law Reporting Company, New York, 1937. 541 pages. $6.00. The report contains papers on a revised uniform system of accounts for gas and electric companies, the desirability of uniformity in state and federal requirements in insurance and safety regulations for motor carriers, and fixing of rates for electric service on a cost basis.

EMPLOYERS AND THEIR GREATEST ASSET. By Karl M. Wehinger. Francis Emory Fitch, Incorporated, New York, 1937. 191 pages. $2.50. In an elementary fashion Mr. Wehinger analyzes employer-employee relationships and points the way to "Industrial Utopia" through observance of the Golden Rule.

ACCOUNTING. By Howell A. Inghram. American Institute of Banking, New York, 1937. 499 pages. $4.50. The principles and problems of accountancy are presented from the point of view of the internal management of a business unit. The text and problem material for this book have been carefully selected, organized and arranged.

CANADIAN TRADE INDEX: 1938. Canadian Manufacturers' Association, Inc., Toronto, 1938. 842 pages. $6.00. An authoritative directory of the products manufactured in Canada with the names of the firms making them. All Canadian manufacturers having more than local distribution for their products are listed.

FUNDAMENTALS OF RETAILING. By R. G. Walters and Edward J. Rowse. South-Western Publishing Co., Cincinnati, 1938. Second edition, revised. 437 pages. $1.60. Intended for use in retail-training courses in secondary schools and special courses in department stores. A series of questions and projects follows each chapter.

COST ACCOUNTING: PRINCIPLES AND METHODS. By Charles Reitell; revised by C. E. Johnston. International Textbook Company, Scranton, Pa., 1937. Second edition. 425 pages. $3.50. In preparing this revised edition of "Cost Accounting: Principles and Methods," the main purpose of the authors was to show that costing for distribution is as essential a part of cost accounting as manufacturing costs. Several chapters on this phase of accounting have been included in the revision, and numerous other chapters have been rewritten.

CORPORATION FINANCE. By Kenneth Field. The Ronald Press Company, New York, 1938. 529 pages. $4.00. Dr. Field's textbook on corporate financial structures and policies covers the field in a comprehensive and thorough treatment. In the more complex sections, illustrative material is amply provided.

DIFFERENTIALS IN INDUSTRIAL WAGES AND HOURS IN THE UNITED STATES. By M. Ada Beney. National Industrial Conference Board, Inc., New York, 1938. 203 pages. $3.50. This study has a timely bearing on many questions of public policy and private business management relating to governmental regulation of wages and working hours, geographical distribution of the working population and industrial enterprises, determination of the railroad rate structure, and various other current economic problems.

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